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# **European Union**

## **Dairy and Products**

### **Annual**

### **2002**

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#### **Report Highlights:**

**Unexpected abundant milk supplies in the EU, due to mild weather conditions, retained animals and quota increases, result in growing intervention stocks of butter and SMP.**

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Includes PSD changes: Yes

Includes Trade Matrix: No

Annual Report

Brussels USEU [BE2], E2

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For trade policy issues, please refer to the 2002 EU Annual Dairy Trade Policy Report (E22058) and the 2002 EU Semi-Annual Dairy Report (E22073)

## **Executive Summary**

As predicted in the latest EU dairy report dated July, the first 8 months of 2002 were difficult for the EU dairy sector. This early prediction was worsened by unexpected abundant milk supplies, due to mild weather conditions, quota increases and animals retained on the farm because of BSE and FMD. Additionally, exports were sluggish. Butter and SMP intervention schemes absorbed massive quantities of products. As of the fall, the EU dairy market situation improved significantly in line with resilient exports, boosted by lower prices and high restitution levels.

Next year it is expected that the EU dairy sector will stabilize. Milk supplies are likely to remain unchanged from 2002. Consumption is expected to grow slightly and exports are forecast to be stable compared to 2002 levels. The market balance will also depend on intervention and to which extent existing stocks will weigh on prices and trigger a chain reaction ultimately forcing additional quantities into intervention.

**FLUID MILK**

PSD Table						
Country:	EU					
Commodity:	Dairy, Milk, Fluid					
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
Cows In Milk	17857	17815	17703	17760	17460	17500
Cows Milk Deliveries to Dairies	114655	115165	114531	115355	114450	115375
Other Milk Production	2302	2322	2330	2365	2370	2395
TOTAL SUPPLY	116957	117487	116861	117720	116820	117770
Fluid Use Dom. Consum.	32445	30970	32237	31050	32120	31080
Factory Use Consum.	84512	86517	84624	86670	84700	86690
Feed Use Dom. Consum.	0	0	0	0	0	0
TOTAL DISTRIBUTION	116957	117487	116861	117720	116820	117770

In 2002, milk supplies in general, and milk deliveries to dairies in particular, were higher than foreseen. This is due to good weather conditions in the spring and to the large number of animals retained on farm because of the 2001 BSE and FMD crises. BSE resulted in a major drop in prices, which led farmers to put off the sale of their animals while FMD restricted livestock movements. The second wave of Agenda 2000 quota increases granted to Greece, Spain, Ireland, the UK and Italy also contributed to higher deliveries. Germany is an exception to the upward trend, as poor weather affected the quality of the forage, resulting in a lower milkfat content. The Netherlands had lower milk production levels in 2002 as compared to 2001 when most of the animal retention took place due to FMD. Higher milk deliveries in 2002 resulted mainly in higher factory use. This explains an increase (cheese, butter and SMP) or a stabilization (WMP) of production for almost all processed dairy products. Fluid use increased slightly as well, boosted by the success of flavored drinks and specialist coffee bars.

Superlevy fines for EU member states in 2001/2002 amounted to 276.3 million euros, versus 292 million euros the previous year. This amount corresponds to 775,000mt oversupply. Nine member states (Belgium, Denmark, Germany, Ireland, Italy, Luxembourg, the Netherlands, Austria, and Finland) exceeded their dairy quotas for deliveries in the 2001/02 quota year and were fined. It should be noted that some of the fines were due to fat content adjustment: only Denmark, Greece, Italy, and Austria actually produced more milk than their allocated quantities. Furthermore, among countries granted a double increase of quota in 2000/01 and 2001/02 under Agenda 2000, only Greece (to a very limited extent), and Italy still overproduced.

In 2003, milk deliveries are forecast to stabilize. One reason is that the next wave of quota increases is not expected until 2005. The second contributing factor is that retained animals will have been

slaughtered by next year. The production decrease caused by the slaughter of these retained animals and the traditional increase in yield are expected to cancel each other out. Furthermore, superlevy fines are high enough to deter overproduction, especially now that Italy has officially stated its determination to charge milk producers for overproduction. Again, Germany is an exception to the stabilizing trend: milk deliveries are expected to increase slightly as compared to relatively low 2002 levels.

### CHEESE

PSD Table						
Country:	EU					
Commodity:	Dairy, Cheese					
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	1131	117	1170	116	1137	106
Production	6044	5420	5989	5450	6000	5450
Extra EC Imports	143	169	149	133	154	139
TOTAL SUPPLY	7318	5706	7308	5699	7291	5695
Extra EC Exports	446	447	450	463	447	465
Human Dom. Consumption	5417	4858	5445	4855	5500	4855
Other Use, Losses	285	285	276	275	263	275
TOTAL Use	5702	5143	5721	5130	5763	5130
Ending Stocks	1170	116	1137	106	1081	100
TOTAL DISTRIBUTION	7318	5706	7308	5699	7291	5695

Note: the discrepancy in beginning/ending stocks between the old and the new columns results from the fact that stocks under the new columns exclusively account for official private storage aid stocks. As a result, commercial stocks have been incorporated into human domestic consumption. The drop in production and consumption as of the 2001 base line is due to revised estimates in some member states, excluding fresh cheese from overall cheese statistics.

Cheese production in the EU increased slightly in 2002, instead of dropping slightly as previously foreseen. The increase is mostly due to larger milk supplies. The growth is likely to remain limited, though, as the general improvement of the EU dairy market took place only in the last months of 2002, and is not deemed sturdy enough for processors to venture into intensive cheese making, which is not covered by an EU safety net in the form of intervention. Imports decrease slightly in 2002, in line with sustained production and stagnating consumption, due to regained confidence in meat. Exports are likely to improve slightly, boosted by an increase of export refunds implemented in May 2002 and by resumed demand in world markets. Consumption remains stable after the big increase of 2001 due to the BSE crisis, reflecting higher HRI consumption but lower household consumption.

In 2003, cheese production is forecast to stabilize. Consumption is likely to follow its traditional upward pattern, although the growth should be minimal. Milk supplies are still abundant enough to

absorb increases in all dairy products but it is assumed that processors will prefer to turn to SMP and butter manufacture which offers them safer return prospects, i.e. intervention..

## BUTTER

PSD Table						
Country:	EU					
Commodity:	Dairy, Butter					
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	163	121	170	141	211	220
Production	1671	1710	1683	1740	1650	1740
Extra EC Imports	102	115	104	108	104	100
TOTAL SUPPLY	1936	1946	1957	1989	1965	2060
Extra EC Exports	138	174	130	185	145	200
Total Use	1628	1631	1616	1584	1614	1599
Ending Stocks	170	141	211	220	206	261
TOTAL DISTRIBUTION	1936	1946	1957	1989	1965	2060

Note: 2001 revised estimates include butteroil production, trade and consumption in all member states. Beginning/ending stocks are official intervention and private storage aid stocks only. Commercial stocks are included in total use.

The year 2002 is marked by growing butter intervention stocks in the EU. Large quantities of butter have been bought into intervention since the beginning of the year (176,000mt by mid-October), mostly at the detriment of private storage aid, which has absorbed smaller quantities as compared with previous years. The reasons for this switch lie in the lower subsidies granted to private storage aid this year but also to a lack of confidence of EU butter manufacturers, who did not want to risk a further downturn in prices.

EU butter production is still expected to increase in 2002, given larger milk supplies and the possibility for producers to sell into intervention. Production is expected to be slightly larger than foreseen which, combined with good export levels, decreases the need for imports. Exports have been boosted by two factors: (1) the increase of export refunds in January 2002 and (2) improving demand in world markets. Total use still follows its traditional declining pattern: domestic consumption is still decreasing and EU butter consumption subsidies (butter for pastry manufacturers) is considered less attractive than before given strict processing conditions viewed as antiquated by processors. Additionally some commercial stocks were sold into intervention.

In 2003, production is expected to stabilize, instead of decreasing, given still abundant milk supplies. Exports to all markets should keep improving, most notably to Russia. Total use is expected to benefit from a loosening of requirements for the pastry manufacturers scheme. However, it is expected that

intervention will remain open in several member states and butter stocks will remain high.

### SKIMMED MILK POWDER (SMP)

PSD Table						
Country:	EU					
Commodity:	Dairy, Milk, Nonfat Dry					
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	160	0	190	0	240	90
Production	965	953	965	1040	950	990
Extra EC Imports	94	59	96	50	82	50
TOTAL SUPPLY	1219	1012	1251	1090	1272	1130
Extra EC Exports	166	137	211	150	205	150
Human Dom. Consumption	330	330	302	300	330	290
Other Use, Losses	533	545	536	550	520	550
TOTAL Use	863	875	838	850	850	840
Ending Stocks	190	0	202	90	217	140
TOTAL DISTRIBUTION	1219	1012	1251	1090	1272	1130

Note: Beginning/ending stocks under the new columns reflect intervention stocks only.

The year 2002 is characterized, for EU SMP as for butter, by growing intervention stocks. Intervention was opened in March 2002 for the first time since 1999, due to domestic oversupply. Purchases into intervention are legally limited to 109,000mt each year between March and August and this ceiling was reached by mid-June. EU authorities then decided to continue to buy some volumes into intervention through tenders. It is assumed that a total quantity of approximately 150,000mt of SMP had been bought by August, when intervention was officially discontinued, as foreseen by EU law. The European Commission subsequently opened its first tender for SMP for feed released from intervention in October 2002 (13,600mt). It is assumed that about 20,000mt will be sold out of intervention in CY 2002. A quantity of 40,000mt of intervention SMP has also been committed to aid programs for the needy within the EU for this year and next.

Production was lower than expected in 2001 as a result of sustained cheese production and resulting lower availability of skimmed milk. In 2002, EU production of SMP is increasing, in line with large milk supplies and increased butter production, mainly in France and Germany. The growth rate for SMP production is higher than for butter, due to lower casein production.

EU imports of SMP in 2002 are temporarily reduced by the detection of chloramphenicol residues in

powder sourced from the main Eastern European suppliers (i.e.Ukraine). Boosted by a succession of export refund increases culminating in the summer of 2002, exports are recovering in the second half of the year after a very weak first six months.

While a trend of declining human consumption still prevails, feed use (reflected in the PSD under "other use") remains stable. In spite of a forecast lower calf crop for 2002, the higher mandatory incorporation rate (50 pct) for calf milk replacers and lower SMP prices help stabilize feed use throughout the EU.

In 2003, it is expected that production of SMP will decline, in line with improved casein production levels and lower milk supplies in some major producing member states (i.e. UK, France). Intervention stocks will also put pressure on prices and processing options. Intervention activity should persist but less intensively than in 2002.

**WHOLE MILK POWDER (WMP)**

PSD Table						
Country:	EU					
Commodity:	Whole Milk Powder (WMP)					
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	59	0	70	0	57	0
Production	840	840	822	840	840	850
Extra EC Imports	7	10	7	10	8	10
TOTAL SUPPLY	906	850	899	850	905	860
Extra EC Exports	438	469	450	500	463	490
Human Dom. Consumption	284	381	279	350	275	370
Other Use, Losses	114	0	113	0	112	0
TOTAL Use	398	381	392	350	387	370
Ending Stocks	70	0	57	0	55	0
TOTAL DISTRIBUTION	906	850	899	850	905	860

Note: Beginning/ending stocks under the new columns now only reflect intervention stocks, for which there is no official EU scheme. Furthermore, losses were incorporated into total use, which is now defined as disappearance.

EU production of WMP plummeted in the first half of 2002, in line with sluggish export levels, but has sharply recovered, resulting in stable production for the whole year. Production was particularly sustained in France, given abundant milk supplies, but lower in Germany. Imports have been larger than foreseen particularly into the Netherlands, due to lower production there.

Like SMP, the WMP situation has been drastically different in the first and second semester of 2002. Exports were low in the first half of the year but were raised to such an extent in the second half of the year by higher export refunds, that the situation for the whole year is one of substantially higher exports.

In 2002, total use (as redefined in the note above), is down as compared to 2001, not because of actual lower human consumption but rather to smaller commercial stocks, due to favorable export conditions in the second half of the year.



In 2003, EU production of WMP is forecast to slightly increase, reflecting adequate milk supply and sustained demand in export markets. Commercial stocks are likely to build up over the year and increase total use. Exports should increase slightly, resulting in higher imports.

For more information please visit our website at <http://www.useu.be/agri/usda.html>.

Previous EU dairy reports:

E22073	EU 2002 Semi-Annual Dairy Report
E22058	EU 2002 Annual Dairy Trade Policy Report

Additional related dairy reports from Agricultural Offices in the European Union released in 2002:

NL2056	Update of othe Dairy Sector in the Netherlands
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